

Message Text

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E.O. 11652: XGDS-2
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SUBJ: GOE AND TEXACO-GULF REACH TENTATIVE AGREEMENT WITH SUPREME
COUNCIL TO RAISE LEGAL PRODUCTION COSTS TO 60 CENTS A BARREL

1. SUMMARY: TEXACO-GULF OFFICIALS REACHED PRELIMINARY
AGREEMENT WITH THE GOE SUPREME COUNCIL TO ALLOW THE COMPANIES
TO CLAIM A PRODUCTION COST OF 60 CENTS A BARREL (RATHER THAN
THE PREVIOUS GOVERNMENT-DECREED PRESUMPTIVE COST OF 51.2
CENTS PER BARREL) AND THUS BEGIN \$2 MILLION WORKOVER PROGRAM
THIS YEAR. HOWEVER, MINISTER OF NATURAL RESOURCES VARGAS
REFUSED TO SIGN THE INCREASE IN PRODUCTION COSTS AS AGREED
BY HIS SUPERIORS. TEXACO EXECUTIVE MAX CRAWFORD COMPLAINED TO
COUNCIL PRESIDENT, ADMIRAL POVEDA, ABOUT VARGAS' REFUSAL TO
IMPLEMENT THE AGREEMENT MADE WITH THE SUPREME COUNCIL. THE
COMPANIES ARE NOW AWAITING POVEDA'S REPLY. MEMBERS OF THE
SUPREME COUNCIL HAVE REFUSED AS YET TO DISCUSS OTHER ISSUES
REQUESTED BY TEXACO-GULF. VARGAS HAS STEPPED UP HIS
HARASSMENT OF THE COMPANIES. END SUMMARY.

2. ROBERT C. SHIELDS (TEXACO VICE PRESIDENT), PHILLIP
E. WYCHE (GULF VICE PRESIDENT) AND LOCAL TEXACO-GULF
OFFICIALS MET WITH MEMBERS OF THE SUPREME COUNCIL APRIL 8
AND 9. ALSO PRESENT WERE MINISTER OF NATURAL RESOURCES
RENE VARGAS, MINISTER OF FINANCE CESAR ROBALINO, AND
LEFTIST UNDP ADVISER (FROM BOLIVIA) TO THE MINISTRY OF

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NATURAL RESOURCES, ENRIQUE MARIACA. MEETING WAS INITIATED

AT REQUEST OF TEXACO-GULF IN ABSENCE OF ANY REPLY TO THEIR LETTER OF MARCH 16. THE FOLLOWING ACCOUNT OF THE MEETINGS WAS REPORTED TO THE EMBASSY SHORTLY AFTERWARDS BY SHIELDS, WYCHE AND LOCAL GULF MANAGER JACK O'BRIEN.

3. THE SUPREME COUNCIL WAS APPARENTLY UNWILLING OR UNPREPARED TO DISCUSS ISSUES OF OVERRIDING CONCERN TO TEXACO-GULF, SUCH AS PRICE, ACCELERATED DEPRECIATION, AND INVESTMENT. THE SUPREME COUNCIL HAS APPARENTLY REJECTED THE ALTERNATIVE OF NATIONALIZATION; DURAN TOLD WYCHE IT WAS NOT AN OPTION TO BE DISCUSSED AT THE MEETING. HOWEVER, WHILE SHIELDS SURMISED FROM THE MEETING THAT PROVEDA AND LEORO OPPOSE NATIONALIZATION, HE NOTED INDICATIONS THAT DURAN ACTUALLY STANDS BEHIND VARGAS AND THE NATIONALIZATION PLAN. GULF OFFICIALS, ON THE OTHER HAND, DO NOT SHARE THIS SUSPICION REGARDING DURAN'S RELATIONSHIP TO VARGAS. (SHIELDS TOLD EMBOFFS THAT HE WAS AWARE THAT SEVERAL INFLUENTIAL GOVERNMENT OFFICIALS, SUCH AS COLONEL SOLON ESPINOSA, HAD MADE KNOWN THEIR OPPOSITION TO SOME OF THEIR COMRADES' ARGUMENTS FOR NATIONALIZATION; SHIELDS AND WYCHE FEARED A 51 PERCENT TAKEOVER MAY BE THE GOV'S EVENTUAL "COMPROMISE" SOLUTION, ALTHOUGH IT WAS BEING IN MANY RESPECTS THE LEAST SATISFACTORY ALTERNATIVE FOR THE COMPANIES.)

4. THE SUPREME COUNCIL DID, HOWEVER, AGREE AT THE MEETING TO ALLOW THE COMPANIES TO CLAIM A 60-CENTS-PER-BARREL COST OF PRODUCTION RATHER THAN THE GOVERNMENT-DECREED 51.2 CENTS (THIS CHANGE WOULD RESULT IN A SMALL DECREASE IN GOVERNMENT TAKE). WHILE THE COMPANIES ARE PLEASED WITH THIS CONCESSION, GULF CLAIMS 71 CENTS IS THE ACTUAL COST OF PRODUCTION. NECESSARY ADJUSTMENTS TO THE 60-CENTS LEVEL ARE TO BE MADE WHEN THE PEAT-MARWICK-MITCHELL AUDIT OF PRODUCTION COST IS FINISHED.

5. VARGAS AT THE MEETING RAISED THE ISSUE OF TEXACO'S LACK OF WELL MAINTENANCE; THE COMPANIES ANSWERED THAT MAINTENANCE IS UNECONOMICAL AT THE CURRENT ALLOWED PRODUCTION COST OF 51.2 CENTS PER BARREL. IT WAS AS A RESULT OF A LENGTHY DISCUSSION ON THIS TOPIC THAT THE SUPREME COUNCIL OFFERED

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THE COMPANIES A PRODUCTION COST OF 60 CENTS A BARREL, AND ASSURED THE COMPANIES THAT A MINISTERIAL RESOLUTION SIGNED BY VARGAS AND ROBALINO WOULD BE FORTHCOMING. TEXACO-GULF AGREED THAT IF THIS WERE DONE THEY WOULD JOINTLY INVEST APPROXIMATELY \$2 MILLION IN A WORKOVER PROGRAM THIS YEAR AND PICK UP ONE OF THE TWO LONG-UNUSED RIGS OWNED BY THE US. FIRM POOL IN ECUADOR.

6. IMMEDIATELY FOLLOWING THE MEETING ON APRIL 9, THE COMPANY OFFICIALS CALLED AT THE DIRECTORATE OF HYDROCARBONS FOR A MEETING WITH JULIO GRANJA, SUB-DIRECTOR OF HYDROCARBONS, AND OTHER OFFICIALS OF THAT DIRECTORATE. ONCE AGAIN THE BOLIVIAN UNDP ADVISER MARIACA SAT IN. THEY WERE INFORMED THAT VARGAS WOULD NOT SIGN ANY RESOLUTION, DESPITE THE ORAL AGREEMENT JUST REACHED WITH THE SUPREME COUNCIL. GRANJA OFFERED TEXACO-GULF NO REASONABLE EXPLANATION FOR VARGAS' REFUSAL TO SIGN. GRANJA PUT ARBITRARY CONDITIONS ON THE WORKOVER PROGRAM, SUCH AS USE OF THE TWO RIGS BELONGING TO THE US. FIRM POOL, RATHER THAN ONE.

7. MAX CRAWFORD, VICE PRESIDENT OF TEXACO, IMMEDIATELY OBTAINED AN APPOINTMENT WITH POVEDA TO RESTATE THE COMPANY'S CLAIM AND POINT OUT THAT THIS WAS A TYPICAL EXAMPLE OF A HIGH-LEVEL GOE-TEXACO-GULF DECISION SUBSEQUENTLY SCUTTLED AT THE MINISTRY OF NATURAL RESOURCES. THE COMPANIES ARE NOW AWAITING POVEDA'S RESPONSE. THEY ARE CONVINCED, OR AT LEAST ENCOURAGED TO BELIEVE, THAT VARGAS WILL BE FORCED TO SIGN THE DECREE ALLOWING THE COMPANIES AN INCREASED PRODUCTION COST.

8. VARGAS HAS STEPPED UP HIS HARASSMENT OF TEXACO-GULF IN OTHER WAYS AS WELL. THE DIRECTOR OF CEPE, PINEIROS (WHO EVIDENTLY IS UNDER VARGAS' THUMB), NOTIFIED TEXACO-GULF TWO WEEKS AGO THAT CEPE WOULD NOT PAY ITS SHARE OF THE OPERATING COSTS, NOR PAY THE COMPANIES FOR THE DOMESTIC CONSUMPTION. CEPE IS APPARENTLY ANNOYED OVER THE COMPANIES' RELUCTANCE TO SIGN THE NEW CEPE-TEXACO-GULF OPERATING AGREEMENT DRAWN UP SOME MONTHS AGO. SHIELDS AND WYCHE SAID THAT IF THIS SITUATION CONTINUES THEY WOULD BE PREPARED TO INVOKE THE HARDSHIP CLAUSE IN THE TEXACO-GULF CONTRACT ALLOWING THE COMPANIES TO SHUT DOWN UNDER CERTAIN CONDITIONS.

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PINEIROS AGREED APRIL 9 THAT WHEN AND IF THE COMPANIES SIGN THE NEW OPERATING AGREEMENT, CEPE WOULD PAY TEXACO-GULF APPROXIMATELY \$2 MILLION IN CEPE'S LONG OVERDUE SHARE OF OPERATING COSTS.

9. SHIELDS AND WYCHE ALSO REPORTED THAT THE DOMESTIC CONSUMPTION (WHICH THE COMPANIES ARE OBLIGED TO FURNISH AT ONLY \$1.48 PER BARREL) HAS DOUBLED ACCORDING TO CEPE SINCE THE BEGINNING OF THE YEAR. THEY SUSPECT THAT CEPE IS ACTUALLY EXPORTING SOME OF THIS "DOMESTIC CONSUMPTION" ON ITS OWN ACCOUNT AT THE MUCH HIGHER EXPORT PRICE. TEXACO-GULF HAS NOT YET MENTIONED THIS ISSUE IN HIGH-LEVEL MEETINGS.

10. PINEIROS HAS ALSO NOTIFIED GULF THAT CEPE WILL ASSUME

CONTROL OF GULF'S GAS-STATION OUTLETS IN ECUADOR AS OF
APRIL 15, EVEN THOUGH CEPE HAS MADE NO PROVISION FOR PAYMENT
FOR THE GULF-REFINED PRODUCTS SOLD THROUGH THESE STATIONS.
GULF OFFICIALS SAY THEY ARE NOT MUCH CONCERNED ABOUT
THIS FURTHER HARASSING ACTION, SINCE THESE OPERATIONS HAVE
INVARIABLY BEEN UNPROFITABLE FOR THE COMPANY.
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